Welcome to CoreLogic’s housing market update for February 2022.

CoreLogic’s national measure of housing values rose by 1.1% in January, up 10 basis points from the December result, when the national index was up 1.0%, but well down from the peak rate of 2.8% in March last year.

Five of the eight capital cities recorded a modest uptick in the monthly rate of growth, including Melbourne, which had posted a slight decline in values over December. Despite this, the quarterly change continued to soften, reflecting the longer-term trend of slowing growth across most regions of Australia.

Housing stock is thinly traded during January, so it will be important to monitor the trend as transactional activity picks up to see if this softening trend persists into the first quarter of 2022. The early indication is that housing markets are starting 2022 with a similar trend to what we saw through late last year. Values are still broadly rising, but nowhere near as fast as they were in early 2021.

A softening in growth conditions has been influenced by less government stimulus, rising fixed term mortgage costs and worsening housing affordability for those that don’t own a home. More recently, a slight tightening in credit conditions, and a surge in new listings through the final quarter of last year may have contributed to softer conditions.

The annual change in national housing values reached a new cyclical high in January, up 22.4% over the year; the highest annual rate of growth since June 1989. In approximate dollar value terms, the typical Australian home is now worth around $131,000 more than it was a year ago. Brisbane recorded the highest annual growth rate across the capital cities, with housing values up 29.2% or approximately $160,000.

Continuing a pattern seen over recent months, the January results showed greater diversity, with Brisbane and Adelaide leading the pace of gains, up more than 2% over the month, while growth in Melbourne, Darwin Sydney and Perth recorded substantially softer outcomes.

Regional markets have again recorded a substantially stronger result, with the combined regionals index up 1.8% over the month and 6.3% over the rolling quarter, more than double the pace of growth seen across the combined capitals over the same time frames.

Similar to the capital cities, it was regional Queensland and regional South Australia that led the pace of growth over the month, however each broad ‘rest of state’ region recorded a monthly gain of at least a 1.2%, demonstrating a depth of demand for regional housing.

Regional Australia’s outperformance relative to the capitals has been a feature through most of this cycle to date, driven by a combination of higher demand and low levels of advertised supply.

Three of the eight capital cities are now recording a median house value over the $1 million dollar mark. Melbourne’s median house value surpassed $1 million for the first time in January, while Canberra recorded a median house value in excess of $1 million for the second consecutive month. In Sydney, the median house value is approaching the $1.4 million mark.

With house values continuing to rise faster than unit values, the difference between the national median house and unit value reached a new record high of 28.3% in January. Further widening of this gap may see demand gradually deflect towards the more affordable medium-to-high density sector of the market, or towards more affordable detached housing markets, typically located around the outer suburbs of metro areas or regional locations.

The trends in advertised supply levels go a long way towards explaining the performance of housing values. Melbourne and Sydney have seen inventory levels normalising over recent months, taking some urgency out of the market as supply and demand become more evenly balanced. On the other hand, the situation in Adelaide and Brisbane, where advertised supply remains tight, is very different, Buyer competition amid low stock levels is a key factor supporting the upwards pressure on prices in these cities.

Although January is typically the quietest month for home sales, activity across the country was up an estimated 15% compared to January last year and almost 40% above the previous five-year average. Demonstrating the strength of demand across regional Australia, the January estimate of home sales was 58% above the previous five-year average while sales activity across the capital cities was estimated to be 27% higher than average.

With market becoming increasingly diverse, lets drill down to the trends taking shape across each of the capital cities.

Sydney housing values were 0.6% higher in January, up from the 0.3% rise recorded in December, making January the third month in a row where housing values have increased by less than 1% month on month. A softening in the growth trend has been evident since April last year and can probably be attributed to a range of factors including thinly stretched affordability, a gradual rebalancing of advertised stock levels and rising fixed term mortgage rates. Houses are still recording a faster growth trend relative to units, although the performance gap has narrowed somewhat over the past six months. The slowing in value appreciation is being led by the more expensive end of the market, where at the peak of the growth cycle housing values were rising at 12.0% per quarter which has since slowed to a more sustainable 1.7% over the three months ending January.

Melbourne’s housing market has recorded one of the lowest growth trends across the capital cities in recent months, posting a subtle 0.1% decline in housing values in December followed by a 0.2% rise in January. The past three months has seen Melbourne home values lift by 0.8%, the lowest rolling quarterly growth rate since the market emerged from the first round of lockdowns in November 2020. While house values have continued to rise at a faster pace than units, the performance between the two housing types has narrowed since October last year, potentially reflecting increased demand for housing in the more affordable but higher density sector of the city. The upper quartile of Melbourne’s housing market has led the slowdown with the rolling three-month growth rate reducing from a cyclical high of 6.7% in April last year to just 0.1% growth over the three months to January.

Brisbane has become Australia’s strongest capital city housing market with values up 8.3% over the most recent rolling quarter and 29.2% higher over the past twelve months. The quarterly growth trend for houses remains more than double that of units up 9.1% and 4.2% respectively. Brisbane unit values have finally overtaken the previous record high median value, set all the way back in March 2010, however relative to the larger cities, the local unit market remains very affordable with a median value around $458,000. Brisbane housing values are being pushed higher by persistently low stock levels against strong demand from both owner occupiers and investors, amplified by a high rate of interstate migration.

Monthly growth rates across Adelaide slipped from 2.6% in December to 2.2% in January. Despite this, the city continues to record one of the highest rates of value growth across the country with housing values up 7.4% over the rolling quarter and 24.8% over the past 12 months. The annual gain has added roughly $116,000 to the value of the typical dwelling resulting in a median dwelling value of approximately $585,000 in January. Unit values are up a much lower 9.5% over the year compared with house values which increased 27.3%. Adelaide’s strong growth is being supported by persistently low advertised stock levels which has added some urgency to the purchasing environment. In a demonstration of the strong selling conditions, we are seeing much greater proportion of properties being taken to auction rather than sold by private treaty. Despite the higher than normal auction volumes, the clearance rate across Adelaide held above 80% through the second half of January.

The pace of growth across Perth’s housing market remains relatively low, however the monthly trend rate of growth has re-accelerated since recording a slight dip in October last year. Arguably, the economic fundamentals look strong across Western Australia and advertised listings are lower than average which should be supporting stronger price growth. One potential explanation is that closed state borders have disrupted the demand flowing from interstate migration, which had showed a strong upwards trend to March last year, but weakened sharply through the June quarter. Housing remains relatively affordable across Perth, with values still 1.4% below their 2014 peak and a median house value that is the lowest amongst the capital cities.

Hobart housing values were 1.2% higher over January taking the annual growth rate to 27.6%, the second highest across the capitals after Brisbane. Hobart is one of the only capital cities where unit values have recorded a stronger annual growth trend than houses, up 32.8% and 26.3% respectively. Based on median value, Hobart is now the fourth most expensive city to purchase a unit, after Sydney, Melbourne and Canberra. The rate of growth is slowing, dropping from a recent high of 8.2% over the three months ending July last year, to 3.4% over the most recent three-month period. The unit market has recorded a sharper slowdown in the growth trend compared to houses, perhaps reflecting growing affordability constraints across the unit sector.

The Darwin housing market noticeably softened through the second half of 2021 and into the first month of 2022. Housing values were 12.1% higher through the first half of last year, but over the seven months since June dwelling values increased by a much lower 2.8%. Houses have been the main drag on growth, with values virtually flat since June last year while unit values have risen a further 8.2%. There has been a sharp slowdown in the pace of rental growth as well, suggesting a broader demand side shortage may be at play. The quarterly rate of rental growth has slowed from a recent peak of 7.7% in March last year to just 0.2% over the three months ending January.

Canberra housing values posted a 1.7% gain in January, the strongest month on month result since October last year. The jump in the pace of growth was mostly attributable to the detached housing sector where the monthly gain bounced back from 0.6% in December to 1.8% in January, while the unit growth rate eased from 2.1% to 1.3%. While the median house value has edged above the million-dollar mark over recent months, affordability is generally less of an issue in Canberra relative to other cities thanks to relatively high median household incomes.

Overall, the housing market was still moving out of the seasonal slowdown following the festive period, but early indicators are showing housing market conditions are starting the year similar to where they finished in 2021. The pace of capital gains remains positive, but increasingly diverse and generally slowing.

The trend in advertised listings will be an important factor for housing markets performance in early 2022. In January, real estate agent activity across CoreLogic platforms was 22% higher than this time last year, suggesting the number of fresh listings could be higher over the coming month relative to previous years.

While new listings are likely to trend higher early this year, it is uncertain whether demand will keep pace. There are a range of factors that could weigh on housing demand including growing affordability constraints, tighter credit availability, rising interest rates and potentially an increasing level of caution amongst buyers wary of buying close to a market peak.

If inventory levels rise and demand reduces, we should start to see vendors and buyers becoming more evenly balanced in the market, reducing the sense of urgency that has been a key factor in pushing up prices through the pandemic.

We may already be seeing this trend evolve in markets like Melbourne where total listings have returned to above average levels and the pace of capital gains has cooled.

We are expecting greater diversity in housing market trends this year. Labour markets, demographic patterns, supply levels and affordability will all play a key role in how housing markets perform around the country. The recent trends in housing values, listings and auction results have favoured the smaller capitals such as Brisbane and Adelaide where housing is more affordable and demand continues to outweigh advertised supply.

Similarly, regional areas within commuting distance of the major capitals and those that offer a blend of affordability and livability are arguably well placed to outperform the broader market, although we are unlikely to see growth rates close to those recorded in 2021.

The trajectory of inflation and interest rates will be critical for housing markets. With higher than forecasted levels of inflation along with tighter labour market conditions, the prospect of rate hikes later this year is gaining consensus. A higher cash rate presents a clear downside risk for housing values.

With so many moving parts and uncertainties, it will be as important as ever to keep up to date on the facts and figures influencing the housing market. We’ll be doing our best to keep you up to date throughout the twists and turns of the year ahead. You can stay tuned into the latest updates at the news pages of corelogic.com.au